Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Presubscribed Interexchange Carrier Charges	)	CC Docket No. 02-53
	)	

COMMENTS OF SPRINT CORPORATION

Jay C. Keithley
Peter N. Sywenki
401 9th St., NW, Suite 400
Washington, DC 20004
(202) 585-1921

June 14, 2002

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SUMMARY

Sprint Corporation, on behalf of its local and long distance operations, and in response to the Notice of Proposed Rulemaking (NPRM) released March 20, 2002, respectfully submits its comments in the above-captioned proceeding. In this NPRM, the Commission seeks comment on its policies for regulating presubscribed interexchange carrier-change charges (PIC-change charges).

Sprint approaches this issue as a LEC responsible for managing the long distance presubscription process in the territories it serves, and as an IXC that interacts with LECs across the nation that perform the necessary functions to enable telephone customers to presubscribe to Sprint's long distance services. As such, Sprint is both a recipient and a payer of PIC-change charges. From this perspective, Sprint is uniquely qualified to balance the interests of LECs which incur significant costs in performing the functions related to the presubscription process and IXCs which rely on LECs to perform these functions. In Sprint's view, existing tariff rates for PIC-changes established under the current "safe harbor" regime are reasonable.

By any measure, and as the Commission has often noted, the long distance market is extremely competitive. PIC-change charges clearly have not deterred competition in the long distance market. The long distance market is characterized by high churn rates, as customers can and do switch long distance providers for any reason with ease. Given the absence of any evidence of a market failure resulting from the current PIC-change charges, Sprint sees little benefit in undertaking time and resource consuming reviews of each LEC's existing tariff rates.

Furthermore, to properly evaluate the reasonableness of the current PIC-change rates, the Commission cannot limit its evaluation to the cost of executing a single PIC change. The Commission must consider all of the functions LECs perform that are directly related to their administration of the presubscription process. LECs have no other mechanism available to recover these costs.

Finally, in evaluating the PIC-change charges of the LECs, it would be wholly inappropriate for the Commission to assume all LECs are the same. The smaller, more rural, independent telephone companies lack the size, scale, and scope of the BOCs. Therefore, the Commission cannot simply apply a BOC-based rate to other local companies, such as Sprint's independent telephone companies. A rate based on BOC costs would not permit the Sprint local telephone companies to recover the costs they incur in carrying out their long distance carrier selection obligations.

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<u>Introduction and Summary</u>

Sprint approaches this issue as a LEC responsible for managing the long distance presubscription process in the territories it serves, and as an IXC that interacts with LECs across the nation that perform the necessary functions to enable telephone customers to presubscribe to Sprint's long distance services. As such, Sprint is both a recipient and a payer of PIC-change charges. From this perspective, Sprint is uniquely qualified to balance the interests of LECs which incur significant costs in performing the functions related to the presubscription process and IXCs which rely on LECs to perform these functions. In Sprint's view, existing tariff rates for PIC-changes established under the current "safe harbor" regime are reasonable.

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[1] See, e.g., NPRM at ¶8, "Today the long distance market is highly competitive, and we believe the ability of end users to change carriers easily has contributed to the competitiveness of that market."

costs would not permit the Sprint local telephone companies to recover the costs they incur in carrying out their long distance carrier selection obligations.

PIC-Change Charges have not Impeded Competition

In the NPRM, the Commission recalls that it established the current safe harbor based on: (1) difficulty in determining actual costs incurred by carriers performing PIC changes; (2) what was known generally about the costs of providing this service; and (3) a policy determination to discourage excessive switching of carriers.[2] The Commission states that circumstances and technology have changed since the current regime was established and that its goal in this proceeding is to establish a reasonable PIC-change charge under current conditions.[3]

Sprint agrees that circumstances and technology have changed dramatically since 1984 when the safe harbor was first established, and since 1987, when the safe harbor was reaffirmed. Since that time, the long distance marketplace has grown exponentially, completely transforming from a market dominated by one carrier to an extremely competitive market in which consumers face a dizzying array of choices to satisfy their long distance communication needs. Today, there are 229 interexchange carriers, 576 toll resellers, 32 prepaid calling card providers, 31 satellite toll service providers, 22 operator service providers and 38 other toll carriers -- a total of 928 toll carriers.[4] While consumers continue to obtain long distance services via traditional means by pre-

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[2] NPRM at ¶14.
[3] *Id*.
[4] Trends in Telephone Service, FCC Industry Analysis and Technology Division, Wireline Competition Bureau, May 2002, Table 10-4.

subscribing their phone lines to the "1+" long distance provider of their choosing, that is just one of many options available today. Increasingly, consumers are turning to alternatives to the presubscription model to meet their long distance communication needs, including pre-paid phone cards, dial-around carriers, wireless service providers, internet telephony, and email. By any measure, the long distance market is extremely competitive. In establishing the $5 safe harbor rate for PIC-change charges, the FCC concluded that this rate "would reflect some cost recovery and would not pose a barrier to competitive entry or exercise of customer choice."[5] The Commission was exactly right.

One measure of a competitive market is customer "churn," the rate at which customers switch providers. Churn rates in the long distance market are very high as customers can and do switch providers with ease. There is no indication that the assessment of tariffed PIC-change charges has deterred customers from switching providers. To the extent a customer is otherwise deterred from switching by a PIC-change charge, the customer can readily avoid the charge altogether by choosing one of the many long distance service alternatives to presubscription. Given the amount of customer churn in the long distance market, it's clear the existing PIC-change charges pose no barrier to exercise of customer choice.

At times, long distance providers, including Sprint,[6] decide to cover the PIC-change charge on behalf of a customer that chooses to switch to the provider. The

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[5] *Investigation of Access and Divestiture Related Tariffs*, CC Docket No. 83-1145, Phase I, Memorandum Opinion and Order, 55 Rad. Reg. 2d (P&F) 1422, (Apr. 27, 1984) (*1984 Access Tariff Order)* at App. B, 13-5.

[6] Contrary to the commonly held belief that carriers "regularly" pay this charge on behalf of new customers, Sprint long distance covered the PIC-change charge for only about one-third of the customers that switched to Sprint in 2001.

methods long distance service providers use to cover the PIC-change charge for customers that switch vary. Typically, the chosen long distance service provider furnishes direct reimbursement to the new customer or a credit on the new customer's bill. The decision whether and how to cover this charge on a customer's behalf is a market-based decision, made freely by the long distance companies, and represents a minor consideration in the overall acquisition costs and lifetime costs of the customer. Based on Sprint's experience as a long distance service provider, the advertising, fulfillment, production, marketing, and commissions costs involved in customer acquisition are considerably greater than those associated with the PIC change. In fact, to put the PIC-change charge in proper perspective, for those customers whom Sprint reimburses, this charge represents only about 1% of a customer's average lifetime costs. A customer's "lifetime" costs include costs for billing, network, service, access, receivables, and other operating costs incurred over the entire time in which a customer stays with Sprint. It is because the PIC-change charge represents a small piece of the overall acquisition and lifetime costs of a potential long distance customer that a carrier may choose to cover this charge on the customer's behalf.

In summary, the current PIC-change charges do not present an obstacle to the free exercise of choice for end users, or to providers should they choose to pay on their customer's behalf. Given the current condition of the market -- its extremely competitive nature and the fact that customers can and do switch providers readily, the Commission can confidently conclude that existing tariff PIC-change charges established under the current safe harbor have not posed any impediment whatsoever to competition and are, therefore, reasonable.

<u>The Current PIC-Change Charge Tariffs are Reasonable</u>

In the NPRM, the Commission determined that it would examine whether to base the PIC-change charge on an examination of carrier costs or whether to rely on market forces to ensure reasonable rates.[7] In addition, the Commission said it would consider what costs should be included for recovery and whether to take into account non-cost factors in determining reasonable charges.[8]

While it is clear that extremely vigorous competition has changed the face of the long distance market since the establishment of PIC-change charges, the original conclusions drawn by the Commission regarding the costs involved with the PIC process remain valid today. Increased competition has brought new challenges and increased complexity to the management of the PIC process, making it even more difficult today than it was in 1984 to capture all of the costs associated with the PIC process. As the Commission notes, "[s]lamming was not part of the telecom vocabulary in 1987, and such costs were not considered when the Commission determined that $5 was an appropriate safe harbor for PIC-change charges."[9] Sprint would add that managing the PIC process includes many new functions that were not necessary in the 1984 long distance marketplace. The PIC process now includes activities such as PIC freeze requests and the mandatory verification obligations that accompany PIC freeze removals,

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[7] NPRM at ¶15.
[8] *Id*.
[9] *Id* at ¶10.

customer account maintenance (Customer Account Record Exchange, or CARE) processing used not only to change one's preferred carrier but also to communicate changes in customer account status with IXCs, and the myriad of obligations attached to handling slamming complaints. These activities were certainly not contemplated at the time the safe harbor was established. Given the fact that managing PICs is more complex today than it was at the outset, there is no reason to believe LEC costs have only come down as proponents of PIC-change charge reductions suggest. These proponents narrowly point to automation in the execution of a PIC change to support the notion that PIC-change charges should be reduced. The Commission cannot limit its evaluation in this way. In evaluating the reasonableness of PIC-change charges, the Commission must consider all of the activities directly related to the PIC process. The cost associated with the execution of a single PIC change fails to capture all of the relevant costs incurred by LECs.

While Sprint's local telephone company operations have automated the execution of PIC changes somewhat, creating the automated systems, testing the systems, training personnel on the use of the systems, and continually maintaining the systems is not without cost, and despite all of the automation efforts, significant manual processes remain.[10] Sprint's local telephone companies devote significant resources to processing PIC requests, which come to Sprint from a variety of sources.

[10] With respect to manual processes, Sprint would point out that labor rates for customer service representatives and other personnel involved in the PIC-process have risen considerably since 1984 when the safe harbor was established. For example, since 1993 (as far back as this data is available) the wage rate for Sprint's customer service representatives has increased 43%. It is a mistake to assume costs have only decreased since the safe harbor was established.

Sprint's local telephone companies receive PIC requests in three ways: (1) electronically transmitted or magnetic tape from large IXCs, (2) via fax from small IXCs, or (3) from end user customers calling Sprint's customer call centers. Based on the experience of Sprint's local companies in 2001, the first method drove approximately one-half of the PIC activity and typically required the least amount of manual processing. However, even with these requests, errors in the electronic transmission or magnetic tape or restrictions on customers' accounts ultimately resulted in manual efforts. For example, a PIC change request for a restricted customer account will be kicked back to the IXC (error code 2166). The IXC must then instruct the customer to call the Sprint local company call center, which then results in manual processes under the third method. While Sprint cannot determine precisely how many of these customers ultimately followed through and called the customer call center, "error code 2166" occurrences numbered just under half of the total manual PIC changes processed by Sprint in 2001. The second method, faxed PIC requests, drove less than 1% of the overall PIC requests coming in to Sprint's local companies and required manual processing. The third method, calls to Sprint's local company call centers, drove the remaining approximately one-half of the PIC activity and also required manual processing. The following describes the processes involved in each of the PIC methods.

PIC-change requests that are electronically transmitted or are received via magnetic tape are entered systematically into the CARE Service Order Entry / Service Order Download (SOE/SODS) systems. Errors "drop out" of the system and require manual resolution, correction, and entry into SOE. Complex (multi-line business PBX or Centrex) orders also "drop out" of the system and require additional work by engineering personnel and manual entry into SOE. PIC-change requests that are faxed or called into a customer call center require manual entry into either a front-end market-specific system (i.e., depending whether the request came into a business or residential market customer representative), or into the Service Order Entry system. This manual entry is handled by either a customer service representative in a call center, a National Exchange Access Center (NEAC) representative, or by CARE management staff. PIC update information is sorted by SODS and distributed to the switches for assignment every hour. Tracking reports are created for managing the SODS/CARE interface. Any exceptions that are identified are worked by Consumer Service Organization NEAC representatives. Outbound reports are provided to IXCs three times per day via "Connect:Direct", an automated communication mechanism developed by Sprint to ensure rapid and accurate reporting between Sprint's local telephone companies and the IXCs they serve. Sprint expends significant resources to ensure, quickly and effectively, that end users are matched with the long distance provider of their choice.

As stated earlier, the incremental cost of executing a single PIC-change request does not capture all of the relevant costs involved with managing PICs and, therefore, cannot be the only consideration in evaluating the reasonableness of the current PIC-change charges. In addition to the significant resources devoted to executing PIC-changes, Sprint's local telephone companies also devote significant resources to handling all of the activities directly related to the PIC process. Sprint's PIC CARE Management groups, located in Overland Park, KS and Carlisle, PA handle IXC account management functions, CARE maintenance, auditing, client support, and reporting to and from IXCs. Customer care centers in Decatur, IN and Carlisle, PA, handle error reports, error resolution, and small IXC concerns. Service Recovery Groups in each region in which Sprint's local telephone companies operate handle slamming allegation investigations, slamming resolutions, and FCC reporting. Call centers[11] receive and handle customer initiated PIC changes, PIC freeze requests, PIC freeze removals, and slamming complaints that come directly from end users. Regulatory affairs personnel in Washington D.C. interface with the Commission staff and Sprint field personnel to investigate and respond to slamming complaints that come into the Commission. While Sprint strives to minimize its PIC-related costs, it must balance cost containment with its duty to provide accurate and timely PIC-change services in strict compliance with the Commission's rules.

The proponents of lowering PIC-change charges ignore relevant cost considerations by limiting their focus to the simple completion of an error-free PIC-change occurrence that utilizes an automated system. It is important to take into account the fact that not all PIC-requests arrive via automated channels or arrive without error, or with proper authorization, or on an account that is not the subject of a freeze or restriction. In addition, it is important to consider all of the resources that go into managing the PIC process. This includes the continual maintenance and updating of systems, methods, and procedures to ensure PIC-change requests are handled efficiently and in compliance with relevant rules. In addition to the systems, methods, and

[11] Sprint operates 4 call centers for business markets in Maitland, FL; Mansfield, OH; Bristol, TN; and Decatur, IN and 13 call centers for consumer markets in Fayettville, NC; New Bern, NC; Charlottesville, VA; Clinton, NC; Johnson City, TN; Greenville, NC; Altamonte Springs, FL; Fort Meyers, FL; Fort Walton, FL; Jefferson City, MO; Medford, OR; Killeen, TX; and Las Vegas, NV.

procedures, LECs must maintain a capable workforce that understands the PIC-change requirements. Continual turnover of customer service representatives and management personnel involved in the PIC process requires continual training efforts. Systems need to reside somewhere, computers sometimes breakdown, and people need workstations. An appropriate evaluation must consider all of these factors.

Sprint can only speak directly to the costs of its LEC operations. As noted earlier, due to increased complexity brought about by competition and the multiplicity of functions LECs perform that are related to managing the PIC process, it is difficult to capture all of the relevant costs, and therefore hard to determine with exacting precision a purely cost-based rate. Notwithstanding this, Sprint asserts that for those PIC-related costs it can readily identify, the system-wide, weighted-average rate of recovery for its local telephone companies in 2001 of $4.96 per PIC-change represents a rough, but reasonable approximation of its costs.

When all relevant functions are factored in, the existing PIC-change charge tariffs represent reasonable rates and a simple mechanism by which LECs recover costs for performing all of the functions involved in their management of the long distance carrier selection process. Undertaking a lengthy, contentious review of each LEC's costs in attempt to determine a precise rate would likely not result in any significant increase in accuracy and would likely yield little, if any, change from today's tariff charges. Therefore, not only would such an undertaking be unwieldy, but it is also unnecessary. Furthermore, as discussed in the next section, in Sprint's view, current PIC-change charges serve as nominal fees which permit LECs to recover costs they incur in managing the PIC process in a straightforward, administratively convenient manner. There is insufficient benefit in imposing a new rate structure or new requirements for customer-specific pricing for specific PIC-change scenarios to offset the significant additional administrative costs that would be created to implement, monitor, and maintain such mandates.

<u>Rate Structure Issues</u>

In addition to evaluating the relevant overall cost considerations, the Commission seeks comment on some specific rate structure issues. Specifically, the Commission seeks input regarding potential differential treatment for customers that subscribe to a PIC-freeze or for frequent switchers and seeks comment on issues regarding multiple-jurisdiction PICs. Sprint addresses these issues below.

First, the Commission, noting cost differences involved with PIC-changes for customers with PIC-freezes, seeks comment on whether the same PIC-change charge should apply to all customers, regardless of whether they subscribe to a PIC-freeze, or if a higher rate should be imposed on customers that subscribe to a PIC freeze.[12] Additionally, the Commission asks if end users should incur the same charge each time they request a PIC change, or whether a higher charge should be imposed upon a customer that requests additional "excessive" PIC changes.[13]

Sprint believes the additional administrative costs and complexity that would be created by the imposition of complicating rate structures or customer-specific rating schemes would outweigh any presumed benefits. The PIC-change charge tariffs

[12] *Id* at ¶17.
[13] *Id*.

represent a simple approach by which LECs have the opportunity to recover costs they incur in handling the long distance carrier selection process. A bifurcated rate structure or charges based on individual customer circumstances would create the need for LECs to develop, implement, and monitor new systems and procedures to accurately identify, track, and bill the new charges. The Commission should avoid imposing new costs when, in Sprint's view, there is no significant benefit to be attained.

Second, the Commission notes that with the existence of intraLATA toll dialing parity, most end users may now choose both an intraLATA and interLATA toll service provider and that this means that customers can now change both carriers simultaneously to a single carrier.[14] The Commission recognizes that, in such instances the LEC may impose both a state and an interstate PIC-change charge for this simultaneous transaction and asks whether this amounts to a double recovery.[15] For the Sprint local telephone companies, when a customer changes both the intraLATA PIC and interLATA PIC simultaneously, the total PIC-charge for this transaction is the same as the charge imposed when a customer changes the interLATA PIC alone. Therefore, in the case of the Sprint local telephone companies, there is no double recovery.

BOC Costs and Rates are Inappropriate Proxies for Independent LECs like the Sprint Local Telephone Companies

In the NPRM, the Commission asks, if it determines to establish a new safe harbor rate, whether it should be based on the average of incumbent LECs' costs or the

[14] *Id* at ¶18.
[15] *Id*.

incumbent LECs' lowest cost, mentioning BellSouth's $1.49 rate in this regard.[16] The Commission also asks whether it should distinguish between incumbent LECs and, if so, on what basis.[17]

Sprint objects to having its PIC-change charges set based on the rates or costs of other LECs. Sprint's local operations are geographically dispersed and are rural under the Act in 17 of the 18 states Sprint serves. As such, Sprint's local telephone companies do not have the size, scale, or scope of the BOCs. Because of their size and the scope of the markets they serve, the BOCs process far greater quantities of PIC-change requests and are therefore able to achieve lower per-unit costs than the Sprint telephone companies. The BOCs can achieve lower per-unit costs because they are able to spread their fixed costs over this greater quantity of PIC changes. Systems costs are an example and a source of significant fixed costs associated with the PIC process. Systems costs are fixed because the costs of developing, operating, and maintaining the systems used in processing PIC-change requests do not vary whether there are hundreds or millions of PIC-changes that are handled. Because of significant fixed costs, smaller companies like Sprint cannot achieve the same per-unit cost efficiencies as the BOCs.

Because of their size, any LEC average that includes the BOCs would necessarily and overwhelmingly skew the average to the BOCs' costs. And, because of their size, scale, and scope advantages, any average cost that includes the BOCs would necessarily be lower than the costs of Sprint's local telephone companies. Furthermore, establishing a safe harbor based on the lowest LEC would automatically understate the costs of all

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[16] *Id* at ¶20.
[17] *Id.*

LECs other than the lowest LEC. Establishing rates in either of these fashions would deny the Sprint telephone companies recovery of costs they incur in fulfilling their long distance carrier selection duties. For this reason, any approach that uses BOC rates or costs as the basis should be rejected.

Conclusion

The PIC-change charge tariffs are reasonable. They have not posed any obstacle whatsoever to competitive entry into the long distance market or to consumers exercising choice. Considering all of the functions LECs perform in fulfilling their long distance carrier selection duties, the current rates, which represent the only available mechanism for recovering the costs of performing these duties, are reasonable. For the reasons stated herein, there is no legal or policy reason for the Commission to overturn the current PIC-change charge tariffs.

Respectfully submitted,

SPRINT CORPORATION

/s/

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Jay C. Keithley
Peter N. Sywenki
401 9th St., NW, Suite 400
Washington, DC 20004
(202) 585-1921

June 14, 2002

CERTIFICATE OF SERVICE

I, Sharon Kirby, do hereby certify that this 14th day of June 2002 copies of the Comments of Sprint Corporation in CC Docket No. 02-53 were delivered as indicated below to the following parties.

/s/

Sharon Kirby

VIA ELECTRONIC-MAIL

Qualex International
Portals II
Room CY-B402
445 12th Street, S.W.
Washington, D.C. 20554
qualexint@aol.com

Tamara Preiss
Division Chief, Pricing Policy Division
Wireline Competition Bureau
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554
tpreiss@fcc.gov

Judith B. Herman
Federal Communications Commission
Room 1-C804
445 12th Street, S.W.
Washington, D.C. 20554
jbherman@fcc.gov

Jeanette Thornton
OMB Desk Officer
Room 10236 NEOB
725 17th Street, N.W.
Washington, D.C. 20503
Jthornto@omb.eop.gov